

AR60

energy
mining
real estate

ANNUAL REPORT

PROPRIETARY 1996

ENERGY INDUSTRIES INC

FINANCIAL HIGHLIGHTS

<i>Financial</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>
Net Earnings (Pre-Tax)	\$ 407,116	\$ 192,035	\$ 51,165
Net Earnings per Share (Pre-Tax)	.037	.014	.01
Cash Generated from Operations	537,791	329,035	111,457
Cash Generated from Operations (per Share)	.049	.04	.02
Shareholders' Equity	5,300,612	6,063,899	1,102,573
Total Assets	\$ 6,357,045	\$ 6,396,296	\$ 1,193,938

HIGHLIGHTS - 1996

- February** One hundred per cent of the Bear 6 North West Territories mining property is acquired.
- February** The company enters into a conditional agreement to acquire the 64 pad Westridge Mobile Home Park in High Prairie, Alberta.
- February** Proprietary enters into an agreement with Kilo Gold Mines Ltd. exchanging a 25 per cent interest in its Bear 6 North West Territories claim (2,582.5 acres) for a 25 per cent working interest in Kilo's Johnson Valley, California gold Property.
- April** Mr. Conrad Kathol is appointed to the Board of Directors.
- April** Proprietary participates in the production testing program on the Johnson Valley micro fine gold deposit.
- May** Acquisition of the Westridge Mobile Home Park in High Prairie Alberta is completed.
- August** Proprietary stakes an additional 2,200 acres adjacent to the Bear 6 mining property in the North West Territories.
- September** Drilling of the first vertical well on the company's North Black Slough property in North Dakota commences.
- September** Conditional approval is received to purchase up to 551,216 of the company's common shares under a normal course issuer bid.
- September** Casing is set on North Black Slough and plans are made to drill a horizontal leg.
- September** A private placement raised \$374,500 at \$2.00/share to fund the drilling of a horizontal well at the company's 100 per cent North Black Slough property in North Dakota.
- September** Proprietary reaches a conditional agreement to acquire majority interest in EnerGCorp Inc., a rapidly growing land development and construction company based in Phoenix, Arizona subject to regulatory approval.
- October** The company enters into a conditional agreement to purchase a mobile home park and related land/assets near Lac La Biche.

Message To Shareholders

CORPORATE PROFILE

Proprietary Energy Industries Inc.

is an emerging resource based

company which began trading on the Alberta Stock Exchange (symbol PPI) as a Junior Capital Pool on December 29, 1993. Committed to the development of a conglomerate of energy, real estate and mining concerns, the company's long-term goal is to establish four independent public companies, one parent holding

corporation and three partially owned and controlled subsidiaries. EnerG Corp Inc., a construction company doing business in Arizona, is certainly one of the year's highlights. In a share for share exchange with

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ANNUAL

SHAREHOLDER'S

MEETING

The Annual Meeting of

Shareholders will take place at 4:00 p.m. on March 20, 1997 at the offices of:

Macleod Dixon
Suite 3700,
400 - Third Avenue S.W.
Calgary, Alberta

Last year, the decision was made to establish a mining property portfolio that had significant upside potential and minimal up front capital requirements. As a result of joint efforts with Kilo Gold Mines Ltd. (ASE-KGD), the company is currently involved in a number of sufficiently advanced mining properties where commercial production can be anticipated to occur within one year. Proprietary and Kilo have also jointly acquired, and are in the process of developing, several promising prospects in New Mexico, Arizona and the North West Territories which are elaborated upon later in this report.

The company's involvement in the real estate sector this past year has been extremely promising. In May, the company closed the acquisition of a 64 pad mobile home park in High Prairie at a cost of \$480,000 and has recently acquired a 62 pad park in Lac La Biche at a cost of \$700,000. Management is completing due diligence on a third park valued at \$10,000,000 and has an outstanding offer on a fourth park at approximately \$12.5 million. These assets are generating significant positive cash flows and the return on investment figures look very attractive. While it is the company's view that these mobile home parks are currently operating in the trough of their economic cycle, management believes that significant upside will be realized once the economic factors that control their profitability are reversed.

The strength of the company's endeavors will be significantly enhanced with the addition of Mr. Conrad Kathol and Mr. Peter G. White to Proprietary's Board. Overall, we are confident that the addition of each of these new members will make a favorable impact on our future decision-making.

In closing, I would like to express my appreciation to our shareholders for their ongoing support as we enter what we expect to be an increasingly successful 1997.

On behalf of the Board of Directors,



Peter J. Workum
President

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ANNUAL SHAREHOLDERS MEETING

The Annual Meeting of Shareholders will be held on March 20, 1996 at 4:00 p.m. at the offices of Macleod Dixon, Suite 3700, 400 - Third Avenue W., Calgary, Alberta.

Message To Shareholders

AS 1996 CAME TO A CLOSE, Proprietary Energy Industries Inc. concluded its most successful year since incorporation – not only did annual revenues and profits increase by 52 and 78 per cent respectively, cash flow per share, net profit and earnings per share showed a substantial increase over the previous fiscal year's results as well.

It is management's belief that, over the long-term, Proprietary's growth should be grounded in low risk ventures that produce positive cash flow. On this note, 1996 brought a number of exciting developments from the conditional acquisition agreement between the company and EnerGCorp to the addition of two new members to the Board of Directors.

Proprietary's conditional agreement with EnerGCorp Inc., a Phoenix based rapidly growing land development and construction company doing business in Arizona, is certainly one of the year's highlights. In a share for share exchange with EnerGCorp's major shareholder, ASCOOP Pension Fund of Switzerland, it is anticipated that 95 per cent of EnerGCorp's shareholders will exchange their shares for Proprietary shares. This will add substantial revenue and profits to Proprietary's 1997 fiscal year as EnerGCorp's unaudited three month financial statements for the period ending Dec 31, 1996 yielded \$3,623,850 in revenue and \$335,824 in net profits.

On the energy front, Proprietary's oil and gas operations have focused on the company's Southern Alberta shallow gas play and more recently on its 100 per cent owned North Black Slough oil play in North Dakota. Eight successful gas wells were drilled and cased in 1996 with four ready for tie-in and completion after break-up in 1997. At the time of writing, a horizontal drilling program had just been abandoned at a very early stage due to mechanical difficulties on Proprietary's well #1 in North Dakota. Management will use the proceeds of \$374,500 raised in a private placement to fund the drilling of the next horizontal well prior to break-up.

Last year, the decision was made to establish a mining property portfolio that had significant upside potential and minimal up front capital requirements. As a result of joint efforts with Kilo Gold Mines Ltd. (ASE-KGD), the company is currently involved in a number of sufficiently advanced mining properties where commercial production can be anticipated to occur within one year. Proprietary and Kilo have also jointly acquired, and are in the process of developing, several promising prospects in New Mexico, Arizona and the North West Territories which are elaborated upon later in this report.

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On behalf of the Board of Directors,

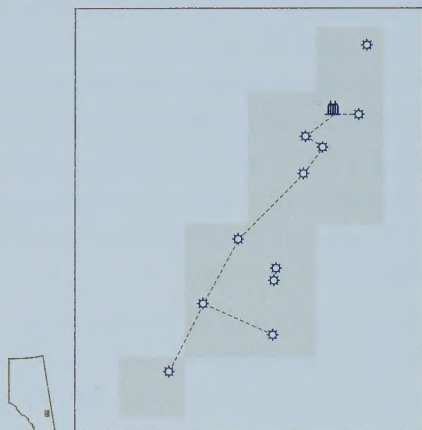


Peter J. Workum
President

Corporate and Operating Highlights

ENERGY

Oyen, Alberta



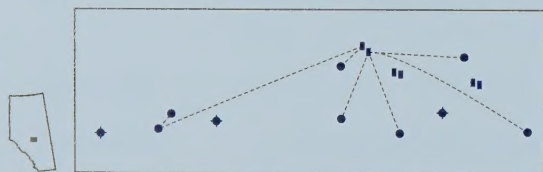
The company owns an undivided 14 per cent working interest in six producing Belly River gas wells. In addition to the working interests, the company also owns a three per cent gross overriding royalty on the wells and associated lands and a 13 per cent working interest in the compression and gas gathering system servicing the area. The facility also processes third party gas which provides incremental revenues. The Oyen property generates approximately 400 mcf/d net to the company based on existing wells. In 1996 the wells continued to produce gas ahead of forecast. Increased natural gas prices also contributed to higher earnings.

North Dakota



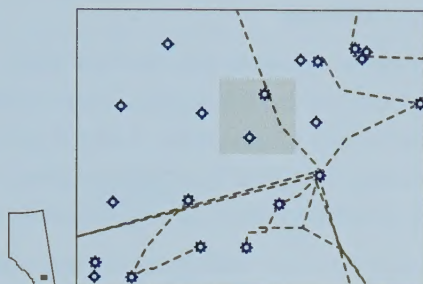
In September, the company completed drilling and casing a test well in the North Black Slough area of North Dakota, a former oil producing property with an estimated 20 million barrels of recoverable oil reserves. Based upon the quality of the reservoir, the company will complete the drilling of a horizontal well on this property. Proprietary owns 100 per cent of this property and anticipates that drilling results should be available in the spring of this year.

Pembina



Proprietary received an attractive offer and disposed of its five per cent working interest in this oil property for \$73,200 cash and 183,000 shares. The shares taken back were valued at 40¢ and are currently trading in the \$1.00 per share range resulting in total current consideration of \$256,200.

Pakowki, Alberta



The company completed the drilling of eight shallow gas wells and is currently evaluating the results. It appears that some compression may be required to make the project economic. Management is currently evaluating the possibility of finding oil in deeper zones given the significant oil reserves manifested in adjacent production.

Middle East

The company is evaluating the possibility of participating in two large Middle East oil prospects and is currently awaiting receipt of written Joint Venture, Memorandum of Understanding, and Production Sharing Agreements.

These projects are on-shore oil exploitation plays with significant reserves in place.

MINING

Wild Irishman



Grant Co., New Mexico

The Wild Irishman prospect consists of 31 unpatented mining claims located in Grant Co., New Mexico near the Tyrone open pit copper mine. The claims overlie, and are adjacent to, a massive quartz-calcite/barite epithermal vein system. Over two miles of strike on the vein system which outcrops along Sprouse-Copeland Fault Zone were staked.

While Proprietary's geological work has been of a reconnaissance scale only, results support the establishment of a small to medium sized open pit silica flux mine.

In 1997, geological and topographical mapping and a modest drilling program will be undertaken to further evaluate the potential of this prospect. The fact that the claims are held 100 per cent by the company and its partners, and can be mined free from royalty, increases the economic attractiveness of this prospect.

Corporate and Operating Highlights

Johnson Valley Project



San Bernadino Valley County, California

In February, Proprietary entered into an agreement with Kilo Gold Mines Ltd. exchanging a 25 per cent interest in a portion of its Sunset LA claims (2,582.5 acres) for a 25 per cent working interest in Kilo's Johnson Valley, California gold property. The company committed to providing \$250,000 in financing as required to install a pilot production facility given the favorable results of an independent feasibility study.

In August, a complete geological report on the drilling program and production tests conducted in April concluded that, using industry standard methods to evaluate gold placer deposits, the test area deposit contained sub-economic recoverable gold values. As a result, Proprietary/Kilo entered into an agreement with Zeotech Industries Inc. for the non-exclusive rights to utilize a micro-fine gold leach recovery technology in all their present and future mining projects. The agreement also called for large scale bulk production tests at the Zeotech Leaching Facility located outside Barstow, California and the acquisition of several mining claims near Barstow should Zeotech successfully extract gold from the ore provided. Results of these tests, conducted in the fall of 1996, were inconclusive and the company is currently evaluating its position vis-a-vis Zeotech and the Johnson Valley Property.

Sunset LA Project



Yellowknife, N.W.T

Proprietary now owns 75 per cent of 2,582.5 and 100 per cent of 2,582.5 acres called Sunset LA (formerly Bear 6 mining Project) located 65 miles north east of Yellowknife. Comprised of 100 claims immediately adjacent to Solid Resources Ltd.'s (SRW-ASE) "Hart Property", Sunset LA is a volcanogenic, polymetallic, massive sulfide prospect.

In 1987, the Aber-Hemisphere Sunrise exploration program identified two million tons grading 0.028 oz. gold/ton; 11.8 oz. silver/ton; 8.9 % zinc and 4.2% lead on claims adjacent to the Hart Property. These results represent less than 1/10 of the aerial extent of homogenous surface anomalies displaying significantly stronger electro-magnetic signatures on both the Hart and the adjacent Sunset LA properties.

Solid continues its drilling program on the Hart property and a major mining company has plans to commence an exploration program on adjacent lands in May of this year. Management is cautiously optimistic that a large commercial mine will be established in this area and that significant upside exists in the Sunset LA claims that have been staked by Proprietary and Kilo.

Subsequent to its fiscal year end, Proprietary has also staked approximately 5,940 acres to the south of Sunset LA called the Snow Claims which cover a large outcropping of felsic volcanic rock similar to the Sunset LA Claims.

NORTH AMERICAN REAL ESTATE



In 1995, the company began an assessment of the Alberta real estate market with the intention of participating in capital projects that would generate a \$40 - \$50 million asset base that will return \$7-\$10 million dollars per year in net income before debt service and tax. The company's investment strategy is to acquire under performing assets that exhibit significant upside potential and revitalize and reduce vacancies to maximize returns.

In May, the company completed the acquisition of the Westridge Mobile Home Park in High Prairie Alberta, a 64 pad park, for approximately \$480,000 including cash and PPI shares. While annual gross revenue is currently \$100,000, management's short-term goal is to increase this by up to 25 per cent.

Although the company reached conditional terms to purchase the Evergreen Mobile Home Park in Edmonton, Alberta the acquisition was not closed due to significant changes in the contractual terms and interest rates that caused the potential return on investment to fall below management's purchase parameters. At the time of writing, however, a new purchase agreement is under negotiation and Management plans to complete the acquisition by spring of this year.

Towards year end, the company entered into a conditional agreement to purchase a profitable mobile home park, and related land and assets, near Lac La Biche, Alberta for approximately \$700,000. This acquisition was completed immediately prior to printing this report.

Subsequent to its fiscal year end, Proprietary signed an agreement to purchase another Alberta mobile home park for \$10 million. The acquisition is subject to due diligence and is scheduled to close early in the new year. The completion of these acquisitions will add in excess of \$23 million to Proprietary's assets and have a significant positive impact on the company's cash flow and net income per share.

Auditor's Report

To The Shareholders of Proprietary Energy Industries Inc.:

We have audited the consolidated balance sheet of Proprietary Energy Industries Inc. as at September 30, 1996 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Forbes & Associates

Forbes & Associates Chartered Accountants

Calgary, Canada

February 5, 1997

Balance Sheet

September 30

1996

1995

ASSETS

Cash and term deposits	\$ 1,087,877	\$ 2,942,449
Accounts receivable - trade	162,262	83,866
Accounts receivable - other	232,942	173,354
Prepaid expenses	5,934	12,500
Investments (Note 4)	719,700	1,198,000
	2,208,715	4,410,169
Notes receivable (Note 5)	722,962	—
Property, plant and equipment (Note 6)	2,710,984	1,959,176
Mining properties (Note 7)	135,302	19,951
Deposits	168,496	—
Goodwill (Note 8)	374,782	—
Organizational costs (Note 9)	35,804	7,000
	<u>\$6,357,045</u>	<u>\$6,396,296</u>

LIABILITIES

Current

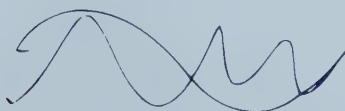
Accounts payable and accrued liabilities	\$ 112,337	\$ 58,497
Deferred revenue	36,580	—
Deferred income taxes	293,049	101,700

SHAREHOLDERS' EQUITY

Share capital (Note 10)	\$ 5,300,612	\$ 6,063,899
Share subscription (Note 10)	226,500	—
Retained earnings	387,967	172,200
	5,915,079	6,236,099
	<u>\$ 6,357,045</u>	<u>\$ 6,396,296</u>

Commitments (Note 12)
Subsequent Events (Note 13)
Segmented Information (Note 14)

Approved on behalf of the Board



Peter J. Workum



Douglas Street

Statement of Earnings and Retained Earnings

For the year ended September 30

1996

1995

REVENUE

Oil and gas	\$ 227,059	\$ 273,855
Gathering	37,169	65,625
Financing income	287,378	175,058
Interest income	274,505	56,864
Rental income	71,150	—
Other income	37,568	40,467
	<u>934,829</u>	<u>611,869</u>

EXPENSES

Operating	100,136	144,744
Crown royalties	23,592	23,897
GORR and freehold royalties	5,789	14,556
General and administrative	104,653	43,222
Consulting - project costs	19,771	7,840
Legal and accounting	32,887	11,014
Advertising and promotion	64,264	12,513
Rent and office	14,048	12,215
Interest	10,586	12,833
Bad debts	2,607	—
Write-off of building	3,154	—
Depletion, depreciation and amortization	146,226	137,000
	<u>527,713</u>	<u>419,834</u>
Earnings before income taxes	407,116	192,035
Deferred income taxes (Note 11)	191,349	71,000

NET EARNINGS	215,767	121,035
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Retained earnings, beginning of year	172,200	51,165
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RETAINED EARNINGS, END OF YEAR	<u>\$ 387,967</u>	<u>\$ 172,200</u>
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Net earnings per share	<u>\$ 0.02</u>	<u>\$ 0.02</u>
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Statement of Changes in Financial Position

For the year ended September 30

1996

1995

Cash provided by (used in)

Operating activities

Net earnings	\$ 215,767	\$ 121,035
Items not involving cash		
Depletion, depreciation and amortization	146,226	137,000
Deferred income	(18,705)	—
Write-off of building	3,154	—
Deferred income taxes	191,349	71,000
	537,791	329,035
Increase in non-cash working capital	405,521	(1,292,316)
	943,312	(963,281)

Investing activities

Property, plant and equipment	(857,969)	(1,240,616)
Notes receivable	(602,418)	—
Mining assets	(115,351)	—
Organizational costs	(33,560)	—
Deposits	(168,496)	—
Allocation as a result of business acquisition	(483,303)	—
	(2,261,097)	(1,240,616)

Financing activities

Repurchase shares	(790,287)	—
Share subscriptions	226,500	—
Issue of common shares	27,000	4,961,326
	(536,787)	4,961,326
Increase (decrease) in cash	(1,854,572)	2,757,429
Cash, beginning of year	2,942,449	185,020
Cash, end of year	\$ 1,087,877	\$ 2,942,449
Cash flow per share	\$ 0.05	\$ 0.04

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, WCP Holdings Ltd. which has been consolidated using the purchase method of accounting.

B) PETROLEUM AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated on the unit of production method based on estimated gross proven reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon units of revenue.

In applying the full cost method, the total capitalized costs less accumulated depletion, depreciation, deferred income taxes and provision for future site restoration costs are limited to an amount equal to the estimated future net revenue from proven reserves plus the cost (net of impairment) of unproven properties less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Substantially all of the Company's exploration and development activities related to petroleum and natural gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

The proceeds from the disposal of oil and gas properties are normally applied as a reduction of the cost of the remaining assets unless it results in a change of 20 percent or more in the depletion rate, in which case a gain or loss on disposal is recorded.

Depreciation on gathering facilities, leasehold improvements and office equipment are computed on the declining balance method at the rates of 25%, 20% and 20% per year respectively.

C) MINING PROPERTIES

Costs of acquisition and exploration of mineral properties are capitalized on an area of interest basis. Depletion of these costs will be on a unit-of-production basis, based on estimated proven reserves of minerals of the areas should such reserves be found. If an area of interest is abandoned or management has indicated that future development appears unlikely, the costs thereto will be charged to income in the period such determination is made.

D) ORGANIZATIONAL COSTS

The organizational costs are recorded at cost and are being amortized using the straight-line method over a period of sixty months.

E) GOODWILL

The goodwill represents the excess of the cost of acquisition over the fair market value of their net assets at date of acquisition and is being amortized using the straight-line method over twenty years.

F) REVENUE RECOGNITION

In order to maximize returns on its liquid assets, the company enters into short-term lending contracts on which it earns interest plus loan placement fees. The Company recognizes the placement fee revenues at the time the loans are finalized and the funds are advanced.

G) INVESTMENTS

Investments are carried at the lower of cost and market. Write downs occur where there has been an other than temporary decline in value.

H) PER SHARE INFORMATION

Basic earnings per share and cash flow per share are calculated using the weighted average number of common shares outstanding during the year.

2 COMPARATIVE FIGURES

The comparative figures have been reclassified to conform with the financial presentation adopted for the current year.

3 ACQUISITION

On March 31, 1996 the Company acquired 100% of the outstanding common shares of WCP Holdings Ltd. The acquisition has been accounted for by the purchase method and the financial statements include the results of operations of WCP Holdings Ltd. from the date of acquisition.

The net assets acquired at the fair value assigned and the consideration given are as follows:

Net Assets Acquired and Liabilities Assumed

Prepaid Expenses	\$ 5,624
Land	8,250
Building	3,154
Distribution Lines	2,703
Equipment	37
Trailers	14,710
Notes Receivable	120,543
Goodwill	\$384,392
Security Deposits	(825)
Deferred Revenue	(55,285)
	<u>\$483,303</u>

Purchase Consideration

Cash	\$473,303
5,000 Common Shares	\$ 10,000
	<u>\$483,303</u>

4 INVESTMENTS

	1996	1995
Note receivable from G.M. Profit & Associates Ltd.	—	\$ 400,000
Notes receivable from H. A. McKinders	529,000	798,000
Marketable Securities, at Cost.	190,700	—
(Market Value \$204,490)		
	\$ 719,700	\$1,198,000

The note receivable from H. A. McKinders in the amount of \$529,000 is payable by November 30, 1996 and is secured by the personal guarantee of the principal. The Company earned extension fees of \$252,500 in consideration for extending the loan. Included in these extension fees was a consideration of \$117,500 representing the receipt of shares of Solid Resources Ltd. which are included in marketable securities. In addition, the note receivable bears interest at the rate of 15% per annum.

5 NOTES RECEIVABLE

	1996	1995
Note receivable from EnerGCorp Inc. in U.S. dollars, unsecured and bearing interest at 10% per annum.	\$ 636,678	—

Note receivable on trailer sales in monthly installments of \$2056 including interest at 0% to 12% per annum, with maturity dates ranging from December 1997 to June 2003, secured by trailer units.

	86,284	—
	\$ 722,962	—

6 PROPERTY, PLANT & EQUIPMENT

		September 30 1996		September 30 1995
	Cost	Accumulated depletion and depreciation	Net book value	Net book value
Land	\$ 8,250	\$ —	\$ 8,250	\$ —
Oil and gas properties	2,718,928	354,188	2,364,740	1,834,327
Trailers	202,631	—	202,631	—
Gathering facilities	145,175	58,035	87,140	116,175
Landscaping	28,094	1,405	26,689	—
Distribution Lines	10,034	7,602	2,432	—
Leasehold Improvements	2,424	242	2,182	—
Office equipment	26,228	9,308	16,920	8,674
	\$ 3,141,764	\$ 430,780	\$ 2,710,984	\$ 1,959,176

a) During 1996, the Company capitalized general and administrative expenses in the amount of \$15,000 (1995 - \$33,000).

b) The costs related to undeveloped properties in the amount of \$1,326,517 (1995-\$793,389) were excluded from the depletion calculation.

c) Management has estimated the salvage value of the equipment to be equal to the abandonment cost of the petroleum and natural gas properties and, accordingly, no provision has been recorded in the accounts for future removal and site restoration costs.

7 MINING PROPERTIES

	1996	1995
Johnson Valley Claims	\$ 58,583	\$ 19,951
Bear 6 Claims	16,094	—
Wild Irishman Claims	60,625	—
	\$ 135,302	\$ 19,951

8 GOODWILL

	1996	1995
Cost	\$ 384,392	\$ —
Less: Accumulated Amortization	9,610	—
	\$ 374,782	\$ —

9 ORGANIZATIONAL COSTS

	1996	1995
Cost	\$ 40,560	\$ 7,000
Less: Accumulated Amortization	4,756	—
	\$ 35,804	\$ 7,000

10 SHARE CAPITAL

a) Authorized:

- (i) Unlimited number of common shares
- (ii) Unlimited number of preferred shares

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

b) Issued :

<i>Common shares</i>	<i>Number</i>	<i>Consideration</i>
Balance September 30, 1994	7,131,800	\$ 1,102,573
Issued for cash net of share issue expenses of \$135,574	4,247,417	4,961,326
Balance September 30, 1995	11,379,217	\$ 6,063,899
Stock options exercised	20,000	2,000
Shares issued to purchase WCP Holdings Ltd.	5,000	10,000
Shares issued for organization costs	10,000	15,000
Shares held in treasury	(27,900)	(51,107)
Shares cancelled	(389,900)	(739,180)
Balance September 30, 1996	10,996,417	\$ 5,300,612

There are no preferred shares issued to date.

c) Subsequent to the year end, the Company purchased for cancellation a further 54,100 shares at a cost of \$107,715.

d) Stock Options

The Company has established a stock option plan for the benefit of directors, officers, key employees and consultants of the Company under which options have been granted as follows:

<i>Expiry Date</i>	<i>Number</i>	<i>Price</i>
August 4, 1998	330,000	\$ 0.10
December 4, 2000	775,000	\$ 1.65
	1,105,000	

e) Private Placement

The Company initiated a private placement on September 17, 1996 and had received proceeds of \$226,500 prior to year end.

11 INCOME TAXES

The income tax provision reflects an effective tax rate which differs from the expected income tax rate as summarized below:

	<i>1996</i>	<i>1995</i>
Expected tax expense at 44.34%	\$ 180,515	\$ 85,148
Non-deductible crown charges	2,644	(2,006)
Depletion not deductible for income tax purposes	2,087	2,233
Share issue costs	—	(15,773)
Goodwill	4,261	—
Other	1,842	1,398
Income tax provision	\$ 191,349	\$ 71,000

As at September 30, 1996, the Company has available \$1,846,000 (1995-\$1,681,616) of tax pools and deductions to reduce future years' taxable income.

12 COMMITMENT

OPERATING LEASE

The Company leases premises under a long-term lease that expires on June 29, 2000. Under the lease the Company is required to pay the following rents:

1996	\$ 8,941
1997	\$ 35,766
1998	\$ 35,766
1999	\$ 35,766
2000	\$ 17,883

13 SUBSEQUENT EVENTS

(A) CORPORATE RE-ORGANIZATION

On October 1, 1996 the Company entered into a conditional agreement with a major shareholder to exchange common shares of the Company for 100% of the common shares of EnerGCorp, Inc. The purchase price, which has not been finalized, will be based on a valuation report. The above reorganization is subject to shareholder and regulatory approvals.

(B) ACQUISITIONS

- (i) Effective December 1, 1996, the company acquired the Mile West Mobile Home Park located in Lac La Biche, Alberta for \$700,000. The consideration paid for the Mile West Trailer Park is \$217,000 cash and a mortgage of \$483,000.
- (ii) The Company is finalizing the purchase of a large mobile home park located in Spruce Grove, Alberta. Management anticipates closing this transaction by spring of this year.
- (iii) The Company has reentered negotiations to purchase Evergreen Mobile Home Park located in Edmonton, Alberta for terms to be disclosed after the acquisition is completed.

(C) PRIVATE PLACEMENT

On December 9, 1996, the Company completed a private placement for an aggregate of 187,250 common shares of the Company at a price of \$2.00 per common share for gross proceeds of \$374,500. Share subscriptions in the amount of \$226,500 relating to this issue, per Note 10, were received prior to the current fiscal year end.

14 SEGMENTED INFORMATION

The company is currently involved in one significant foreign business segment, being the exploration and development of petroleum and natural gas properties in the United States. All revenue and income are presently derived from Canada. The United States operations have identifiable assets of \$1,089,515 (1995 - \$793,389).

DIRECTORS

Hans-Rudolph Buser
Director
Basel, Switzerland

Jean-Claude Dueby
Director
Bern, Switzerland

Peter Joss
Director
Weinfelden, Switzerland

Conrad Kathol
Director
Calgary, Alberta

Andrew A Mackenzie
Canmore, Alberta

Robert A. McPherson
Director
Calgary, Alberta

Douglas Street
Director
Calgary, Alberta

Peter G. White
Director
Toronto, Ontario

Peter J. Workum
President and Director
Calgary, Alberta

OFFICERS

Timothy Hamilton
Vice-President Operations
Calgary, Alberta

Theodor Hennig, C.A.
Vice President, Finance
Secretary & Treasurer
Calgary, Alberta

FINANCIAL

The auditors of the company are:

Forbes and Associates
Chartered Accountants
Suite 1020, 530-8th Ave. S.W.
Calgary, Alberta T2P 3S8

Montreal Trust Company of Canada at its principal office in Calgary, Alberta is the transfer agent and registrar for the Common Shares.

Stock Exchange Listing and Symbol: The Alberta Stock Exchange - PPI

For Shareholder/Investor inquiries please contact:
Theodor Hennig, C.A.
Vice President, Finance
403-266-6364 (Business)
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thennig@proprietary-energy.com

Visit our website at:
www.proprietary-energy.com

SHARE PRICE PROFILE



To conform with common usage, imperial units of measurement are used in this report to describe exploration and production. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids) = 6.29 barrels

1 cubic metre (natural gas) = 35.31 cubic feet

1 litre = 0.22 imperial gallons

1 hectare = 2.47 acres

1 tonne = 0.98 ton (long)

bbls: barrels one barrel of oil is 34.972 Imperial gallons, or 42 U.S. gallons

mbbls: thousand barrels

mmbbls: million barrels

BOPD: barrels per day

mbl/d: thousand barrels per day

mcf: thousand cubic feet

mmcf: million cubic feet

bcf: billion cubic feet

mmcf/d: million cubic feet per day

BOE: barrels of oil equivalent

b) Issued :

Common shares	Number	Consideration
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1998	\$ 35,766
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2000	\$ 17,885

13 SUBSEQUENT EVENTS

(A) CORPORATE RE-ORGANIZATION

On October 1, 1996 the Company entered into a combination agreement with a major shareholder to exchange common shares of the Company for 100% of the common shares of Energy Services Inc. The purchase price, which has not been finalized, is based on a valuation report. The above reorganization is subject to shareholder and regulatory approvals.

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DIRECTORS

Hans-Rudolph Buser
Director

Basel, Switzerland

Jean-Claude Dudy
Director

Bern, Switzerland

Peter Joss
Director

Weinrieden, Switzerland

Conrad Katol
Director

Calgary, Alberta

Andrew A Mackenzie
Director

Calgary, Alberta

Robert A McPherson
Director

Calgary, Alberta

Peter J. Workum
President and Director

Calgary, Alberta

Timothy Hamilton
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Theodor Hennig
Vice President Finance

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Conversion Factors

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mmcf/d: million cubic feet per day

BOE: barrels of oil equivalent

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